

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

Federal-State Joint Board on Universal Service;)	
)	CC Docket No. 96-45
Comments on the Rural Task Force Recommendation)	FCC-00J-3
)	

**Reply Comments of the Public Service Commission of
the United States Virgin Islands**

Pursuant to the FCC's October 4, 2000 public notice,¹ the Public Service Commission of the United States Virgin Islands hereby submits its reply to the comments filed with respect to the Rural Task Force Recommendation to the Federal State Joint Board on Universal Service.² In its opening comments, the Public Service Commission commended the RTF for crafting a consensus proposal that complies with the principles of Section 254 -- in particular, Congress's mandate that any universal service support mechanism be "sufficient"³ and that consumers in insular and rural areas have access to

¹ Federal State Joint Board on Universal Service, CC Docket No. 96-45, *Public Notice: Comments on the Rural Task Force Recommendation*, FCC-00J-3 (rel. Oct. 4, 2000).

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Rural Task Force Recommendation to the Federal-State Joint Board on Universal Service* (rel. Sept. 29, 2000) ("RTF Recommendation" or "Recommendation").

³ 47 U.S.C. § 254(b)(5).

supported services comparable to urban consumers.⁴ Some commenters challenged the Public Service Commission's assessment of the RTF Recommendation, opposing an increase in the size of the universal service fund. It is now time for the Joint Board to accept the carefully negotiated RTF recommendation based on a broad spectrum of stakeholders, and adopt a universal services mechanism for rural and insular carriers that complies with Section 254's statutory mandate.

It is important to note that no commenter has challenged evidence of the growing demand for basic services, including those that are used to access advanced services. Establishing a universal service mechanism that risks reducing universal service funding to rural and insular communities despite demand for supported services is plainly inconsistent with Section 254's mandate of "sufficient" funding. Moreover, the substantial diversity among rural and insular carriers renders unworkable the Forward Looking Economic Cost ("FLEC") model applicable to non-rural carriers. As the RTF properly recognized, only an adjusted embedded cost model fully accounts for the differing needs and circumstances of carriers serving rural and insular communities.

Some commenters challenged the RTF Recommendation on the grounds that there is no evidence that the current level of universal service funding available to rural and insular providers is not sufficient.⁵ Such challenges are unsupported by any evidence and are thus baseless. The unrebutted evidence is that using the model used for large carriers on the mainland for rural and insular providers would reduce the universal service funding

⁴ 47 U.S.C. § 254(b)(3).

⁵ See, e.g., WorldCom Comments at 6.

available to such providers by almost one billion dollars.⁶ The reduction would come during a period of dramatically increasing demand for basic services including those used to access advanced services. It cannot seriously be claimed that as the Internet has grown and becomes an important source of economic opportunity, the universal service needs of rural and insular populations will shrink.

Some commenters oppose the RTF Recommendation that an embedded cost model be used to calculate the universal service needs of rural and insular communities, and instead advocate uniform application of a FLEC model.⁷ However, the RTF showed that, as a result of the diversity among rural and insular providers, the use of a model based on average values produced unpredictable and erroneous results.⁸ The RTF's findings were validated by NECA, which found that "the Non-Rural Synthesis Model produces greatly distorted results for rural carriers, whose serving areas, customer bases, and operating characteristics vary greatly, not only from those of Non-rural carriers, but among Rural carriers themselves."⁹ It is significant to note that this NECA analysis did not even adequately evaluate the impact of using the model on insular areas because it had insufficient data to do so.

⁶ See RTF Recommendation at 19.

⁷ See, e.g., Qwest Corporation Comments at 2-7; WorldCom Comments at 1-5; California PUC Comments at 2.

⁸ See RTF Recommendation at 17-18.

⁹ NECA Comments at 3.

In addition to the substantial differences between the universal service needs of rural and insular communities, the needs of any single carrier may fluctuate significantly over time, resulting in over- or under-compensation where a FLEC model is used. As NTCA has pointed out, “[e]ven the perfect proxy model becomes somewhat outdated almost as soon as it is released.”¹⁰ The variation of universal service needs over time is particularly problematic in an insular area like the United States Virgin Islands which is subject to catastrophic events, including hurricanes. By tying compensation to actual, rather than projected, costs the RTF Recommendation ensures that rural and insular communities receive the support they need to rebuild when disaster strikes.

Unlike undifferentiated application of a FLEC model, the RTF Recommendation satisfies all of Section 254’s requirements. Section 254 requires that a universal service support mechanism be “specific, predictable and sufficient.”¹¹ Applying a FLEC model to rural and insular areas fails to meet this basic requirement. Indeed, by establishing funding limits even before the mechanism is applied, a FLEC model puts the cart before the horse, and undermines sufficiency entirely. The RTF mechanism, by contrast, ties funding directly to embedded costs, and produces “sufficient” funding as the Act requires. In addition, because the RTF mechanism relies on actual, rather than predicted, costs, it ensures that access to supported services in insular areas is comparable to access in urban areas,

¹⁰ NTCA Comments at 4 (explaining that proxy models become outdated due to the inability to timely and effectively update data and assumptions as well as changes in technology and the definition of universal service).

¹¹ 47 U.S.C. § 254(b)(5).

consistent with Section 254.¹² Under a FLEC model, as discussed above, averaging may understate actual need and leave an insular area without needed funds.

In sum, the Public Service Commission of the United States Virgin Islands supports the RTF Recommendation. The universal service needs of the United States Virgin Islands, like many rural and insular areas, differ significantly from urban communities. The RTF Recommendation takes these factors into account and fairly apportions funding based upon embedded costs. Most importantly, the Recommendation provides for a universal service mechanism sufficient to ensure that

¹² 47 U.S.C. § 254(b)(3).

residents of the United States Virgin Islands and other insular communities will have access to economic opportunities in the new economy.

Respectfully submitted,

**PUBLIC SERVICE COMMISSION OF THE UNITED STATES
VIRGIN ISLANDS**

By: /s/ Walter L. Challenger

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November 30, 2000

CERTIFICATE OF SERVICE

I, Christine Peyton, hereby certify that I have caused a copy of the foregoing
“Comments of the Public Service Commission of the United States Virgin Islands” to be
served on this 30th day of November, 2000, by United States mail, first class postage, pre-
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